

WASHINGTON – As the sub-prime mortgage crisis deepens, U.S. Rep. Mark Kirk (R-Ill.) today called for the temporary reinstitution of the Home Owners' Loan Corporation, one of Congress's most successful efforts to protect homeowners from foreclosure in the 1930s. The Home Owners' Loan Corporation for the 21st Century (HOLC21) would acquire defaulted loans from mortgage lenders and offer sustainable refinance options for homeowners, preventing further foreclosures. During 2008, 1.8 million sub-prime borrowers will see their adjustable rate mortgages reset upward, with increases every six months to follow.

“Of the more than \$10 trillion in outstanding mortgage loans in the United States, \$1.3 trillion are sub-prime, and half of those have adjustable rates,” Congressman Kirk said. “Approximately 20 percent of those adjustable rate mortgages are now past due. Congress should help homeowners refinance their mortgages to keep their homes. Reinstating the Home Owners' Loan Corporation would put us on a path to stave off a mortgage-default spiral and bolster our economy. The Corporation was a temporary institution that stopped a crisis, kept Americans in their homes and then closed, repaying the taxpayer with a profit.”

In the early 1930s, nearly 50 percent of all mortgage loans were in default. In 1933, the Congress established the Home Owners' Loan Corporation with the following goals: (1) Protect homeowners from foreclosure; (2) Relieve homeowners of the higher interest and principal payments incurred during periods of higher property values and higher earning power; (3) Declare that it was a national policy to protect home ownership; (4) Impose the least possible cost on the federal treasury; and (5) Avoid injustice to the investor.

HOLC, established in 1933, was a temporary corporation which restored liquidity and stability to uncertain mortgage markets. HOLC acquired and refinanced over 1 million troubled mortgage loans—about 20 percent of all mortgage loans in the country. HOLC only rescued current mortgages for three years, 1934-37, stopping a panic among banks and other financial institutions. The Corporation issued \$2 billion in bonds with maturities up to 18 years with interest rates two percentage points above the federal reserve rate. Using those bonds, HOLC purchased troubled mortgages from lenders at a substantial discount (on average 20 percent below their pre-depression value), then offering reasonable refinancing options to homeowners. This prevented a total collapse of banks and allowed families to remain in their homes. States and local communities appreciated keeping local taxpayers in their homes rather than turning whole neighborhoods into rat-infested ghost towns. After fulfilling its statutory mission, HOLC was liquidated in 1951, returning a \$14 million surplus to the Treasury.

“A short-term stimulus package that includes \$25 billion for HOLC21 will provide needed stability to a volatile market and help lower-income borrowers stay in their homes,” Congressman Kirk said. “A three-year authorization, remaining in operation until its portfolio was resolved, is an economically sound and fiscally responsible solution to the sub-prime mortgage crisis. This solution is a ‘win-win:’ Banks avoid total bankruptcy and homeowners get to keep their homes. Once the panic subsides, the taxpayer will be repaid.”